

COVER SHEET

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S.E.C. Registration Number

E U R O - M E D L A B O R A T O R I E S P H I L . ,
 I N C .

(Company's Full Name)

1 0 0 0 U N I T E D N A T I O N A V E N U E C O R .
 S A N M A R C E L I N O S T . M A N I L A

(Business Address: No. Street City/Town/Province)

S a n d r a P i n e d a

Contact Person

5 2 4 0 0 9 1 - 9 8

Company Telephone Number

1 1 1 4
 Month Day

1 7 - Q
 FORM TYPE

 Month Day
 Annual Meeting

Fiscal Year
 2 0 0 7

Secondary License Type, if Applicable

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

Total Amount of Borrowings
 Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks - pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

**QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES
REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER**

1. For the quarterly period ended September 30, 2007
2. Commission identification number 148022 3. BIR Tax Identification No. 000-288655V
4. EURO-MED LABORATORIES PHILS., INC.
Exact name of issuer as specified in its charter
5. Philippines
Province, country or other jurisdiction of incorporation or organization
6. Industry Classification Code (SEC Use Only)
7. 1000 United Nations Avenue cor. San Marcelino St., Manila 1000
Address of issuer's principal office Postal Code
8. (632) 524-00-91 to 98
Issuer's telephone number, including area code
9. Not Applicable
Former name, former address and former fiscal year, if changed since last report
10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

<u>Title of each Class</u>	<u>Number of shares of common stock outstanding and amount of debt outstanding</u>
Common Stock	2,928,200,000 shares

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No []

If yes, state the name of such Stock Exchange and the classes of securities listed therein:

Philippine Stock Exchange

Common Stock

12. Indicate by check mark whether the registrant:

(a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No []

(b) has been subject to such filing requirements for the past ninety (90) days.

Yes [x] No []

EURO-MED LABORATORIES PHIL., INC.
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Part I – Financial Information

- Item 1. Financial Statements
See accompanying Interim Financial Statements.
- Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations.

The Company’s operations have no seasonal aspects that had a material effect on the financial condition or results of operations. The Company operates regularly for twelve (12) months during the year and does its maintenance jobs during Sundays and holiday breaks. There are no known trends, demands, material commitments for capital expenditures, events, or uncertainties that will have a material impact on the Company’s liquidity or have a material favorable or unfavorable impact on net sales/revenue/income from continuing operations. There are no known events that will trigger direct or contingent financial obligation that is material to the Company, including any default or acceleration of an obligation. There are no off-balance sheet transactions, arrangements, obligations and other relationships of the Company with unconsolidated entities or other persons created during the reporting period.

The Company’s top five (5) key performance indicators are:

1.) The Company’s net sales increased by 7% from P1,524.9 million for the three quarters of 2006 to P1,631.9 million for the three quarters of 2007. The increase in sales was attributed to the increase in local and export sales. Domestic sales increased by 6.% from P1,258.5 million for the three quarters of 2006 to P1,337.1 million for the three quarters of 2007, while export sales increased by 11% from P266.4 million for the three quarters of 2006 to P294.8 million for the three quarters of 2007. The increase in sales indicator was chosen by management as it discloses the level of performance the Company has attained against the targeted growth. The percentage change is computed by dividing the peso increase in sales by the peso sales during the comparable period of previous year.

2.) Gross profit from sales decreased by 2% from P721.6 million for the three quarters of 2006 to P707.2 million for the three quarters of 2007. Cost of goods manufactured and sold increased by 15% from P803.3 million for the three quarter of 2006 to P924.7 million for the three quarters of 2007. As a percentage of net sales, cost of goods manufactured and sold increased from 53% for the three quarters of 2006 to 57% for the three quarters of 2007. The gross profit indicator provides information about product selling prices relative to production costs. The percentage change in gross profit is computed by dividing the peso increase/decrease in gross profit by the peso gross profit during the comparable period of previous year.

3.) Income from operations decreased by 4% from P413.9 million for the three quarters of 2006 to P398.6 million for the three quarters of

2007. Operating expenses (selling, distribution and administration) increased by 0.30% from P307.7 million for the three quarters of 2006 to P308.7 million for the three quarters of 2007. The increase was due to increased variable operating expenses, i.e. delivery expenses, marketing development and entertainment expenses, office supplies, commission and transportation expenses. Operating expenses decreased as a percentage of the Company's net sales from 20% for the three quarters of 2006 to 19% for the three quarters of 2007. Changes in income from operations and operating expenses are management's indicators for the degree of control over the Company's spending on selling, distribution and administrative expenses. The percentage change in income from operations is calculated by dividing the peso increase (decrease) in operating income by the peso operating income during the comparable period of previous year. The percentage change in operating expenses is calculated by dividing the peso increase in operating expenses by the peso operating expenses during the comparable period of previous year.

4.) Net finance cost decreased by 11% from P178.3 million for the three quarters 2006 to P159.2 million for the three quarters of 2007 due to lower interest rate. Changes in net finance costs indicator provides information on significant elements of income and other expenditures that did not arise from the Company's continuing operations. The percentage change is calculated by dividing the peso increase(decrease) in other income/charges by the peso other income/charges during the comparable period of previous year.

5.) Provision for income tax increased by 2% from P82.5 million for the three quarters of 2006 to P83.8 million for the three quarters of 2007. Net income increased by 2% from P153.1 million for the three quarters of 2006 to P155.6 million for the three quarters of 2007. Changes in net income are indicators of the adequacy of amount to satisfy stockholders' dividend and rate-of- return expectations. The percentage change in net income is calculated by dividing the peso increase in net income by the peso net income during the comparable period of previous year.

The Company's total assets increased 2% from P5.457 billion in 2006 to P5.557 billion in 2007. Current ratio increased by 15% from 1.06:1 in 2006 to 1.22:1 in 2007, while Equity ratio increased by 3 % from 0.56:1 in 2006 and 0.58:1 in 2007.

The increase in trade and other receivables was due to the increase in export and local sales. The increase in inventory was attributed to the management decision to increase inventory stocking level. The increase in other current assets was due to the increase in prepaid development expense, creditable withholding tax, advances to officers and employees, housing assistance. The decrease in acceptances payable was due payments made on the trust receipts on letters of credit for the importation of raw materials. The decrease in other current liabilities was due to the decrease in accrued expenses as they are settled. The income tax payable decreased since the amount as of 31 December 2006 represents the audited final and adjusted income tax payable as of the end of year 2006 while the amount as of 30

September 2007 represents the unaudited estimated tax on income for the third quarter of 2007. The dividends represent the stock dividends declared by the Board of Directors on 21 December 2006, which was already reflected in the Balance sheet.

Projection

The Company expected to increase its sales in 2007 by about 11% from its local and export sales. The Company is continuously expanding its present product line to include specialty products for inhalation, ophthalmic, irrigation and other healthcare purposes. The Company expects to open new export markets in other countries and increase the number of products being exported.

The gross profit ratio is expected to decrease from 48% of sales in 2006 to about 46% of sales in 2007 due to higher cost of sales caused by the increase in imported materials, fuels and the higher cost of sales on products which are being distributed by the Company. The expected gross profit in 2007 is about P1,103.2 million.

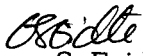
The net income for 2007 is expected to increase by about 3%. As a percentage of sales, the net income ratio is expected to be the same at 11% of sales in 2006 and 2007. The expected net income in 2007 is about P264 million.

SIGNATURES

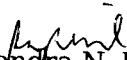
Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

EURO-MED LABORATORIES PHILS., INC.

By:


Georgiana S. Evidente
President

November 13, 2007


Sandra N. Pineda
Chief Accountant

November 13, 2007

EURO-MED LABORATORIES PHIL., INC.

BALANCE SHEETS

		30 September	31 December
	Notes	2007	2006
		(Unaudited)	(Audited)
ASSETS			
Current			
Cash and cash equivalents	2.7, 4	P273,346,629	P276,976,598
Trade and other receivables, net	2.8, 5	782,267,733	689,406,844
Inventories	2.9, 6	514,839,936	466,324,801
Others	2.13, 7	68,964,477	48,045,681
		1,639,418,775	1,480,753,924
Non-current			
Investment in subsidiary	2.10, 8	82,356,940	82,356,940
Property, plant and equipment	2.11, 9	3,709,556,823	3,770,650,445
Others	2.13-15, 10	125,476,172	123,105,447
		3,917,389,935	3,976,112,832
TOTAL ASSETS		P5,556,808,710	P5,456,866,756
LIABILITIES AND EQUITY			
Current			
Trade accounts payable	2.17, 11	P90,727,155	P90,066,396
Notes payable	2.18, 12	1,109,216,668	1,109,666,667
Acceptances payable	13	95,580,942	112,801,119
Income tax payable	27	25,305,173	50,836,808
Others	14	19,401,399	32,536,219
		1,340,231,337	1,395,907,209
Non-current			
Notes payable	2.18, 12	988,866,666	988,866,665
Deferred credits	15	5,400,000	5,400,000
		994,266,666	994,266,665
Equity		3,222,310,707	3,066,692,882
TOTAL LIABILITIES AND EQUITY		P5,556,808,710	P5,456,866,756

The notes on pages 8- 34 are an integral part of these financial statements.

EURO-MED LABORATORIES PHIL., INC.
STATEMENTS OF INCOME AND EXPENSES
 UNAUDITED

	2007		2006		
	July - Sept.	Jan. - Sept.	July - Sept.	Jan. - Sept.	
NET SALES	2.21, 3, 20	P598,087,371	P1,631,914,381	P554,115,813	P1,524,926,478
COST OF GOODS					
MANUFACTURED AND SOLD	2.9, 22	386,918,023	924,670,021	311,923,686	803,347,875
GROSS PROFIT		211,169,348	707,244,360	242,192,127	721,578,603
SELLING, GENERAL AND ADMINISTRATIVE EXPENSES	23	94,738,185	308,672,005	105,038,146	307,665,239
INCOME FROM OPERATIONS		116,431,163	398,572,355	137,153,981	413,913,364
NET FINANCE COST					
Interest income	2.21	598,797	976,459	385,890	1,146,894
Dividend income	2.21	-	2,750	-	600
Finance charges	2.18, 24, 25	(43,226,316)	(156,991,396)	(59,129,942)	(177,319,101)
Miscellaneous	21	(4,793,111)	(3,148,129)	(1,403,099)	(2,145,004)
		(47,420,630)	(159,160,316)	(60,147,151)	(178,316,611)
INCOME BEFORE INCOME TAX		69,010,533	239,412,039	77,006,830	235,596,753
PROVISION FOR INCOME TAX	27	25,305,173	83,794,214	26,952,390	82,458,863
NET INCOME		P43,705,360	P155,617,825	P50,054,440	P153,137,890
BASIC EARNINGS PER SHARE	2.23, 28	P0.02	P0.06	P0.02	P0.06

The notes on pages 8-34 are an integral part of these financial statements.

EURO-MED LABORATORIES PHIL., INC.
STATEMENTS OF CHANGES IN EQUITY

	30 Sept. 2007		30 Sept. 2006		
	Share capital (Notes 17, 18)	Share premium reserve	Retained earnings (Notes 17, 19)	Total equity	Total equity
Balances, 31 December 2005	P2,662,000,000	P66,609,227	P78,438,544	P2,807,047,771	P2,807,047,771
Net income, 2006		-	259,645,111	259,645,111	153,137,889
10% Stock dividend	266,200,000	-	(266,200,000)	-	-
Balances, 31 December 2006	2,928,200,000	66,609,227	71,883,655	3,066,692,882	2,960,185,660
Net income for the period Jan. - Sept. 2007	-	-	155,617,825	155,617,825	-
Balances, 30 September 2007	2,928,200,000	66,609,227	227,501,480	3,222,310,707	2,960,185,660

The notes on pages 8- 34 are an integral part of these financial statements.

EURO-MED LABORATORIES PHIL., INC.

STATEMENTS OF CASH FLOWS

UNAUDITED

		For The Nine Months Ended Sept. 30	
	Notes	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		P236,827,282	P235,596,753
Adjustment for:			
Depreciation and amortization	9	124,655,026	123,283,422
Finance charges	24	(159,576,152)	(177,319,101)
Foreign exchange loss (gain)			
and other miscellaneous income	21	(3,148,130)	(2,145,004)
Operating income before working capital changes		198,758,026	179,416,070
Changes in assets and liabilities:			
(Increase) Decrease in:			
Trade and other receivables	2.8, 5	(92,860,889)	(65,637,816)
Inventories	2.9, 6	(48,515,135)	(40,345,340)
Other current assets	2.13, 7	(20,918,796)	(17,770,368)
Increase (decrease) in:			
Trade accounts payable	2.17, 11	660,759	18,140,667
Acceptances payable	13	(17,220,177)	20,298,047
Other current liabilities	14	(13,134,820)	11,017,186
Cash generated from operations		6,768,968	105,118,446
Interest received		976,459	1,146,894
Net cash provided by operating activities		7,745,427	106,265,340
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for the acquisition of property, plant and equipment		(63,545,251)	(182,957,330)
Dividend received		2,750	600
Decrease (increase) in other non-current assets	10	(2,370,725)	83,204
Net cash used for investing activities		(65,913,226)	(182,873,526)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from availment of notes payable	2.18, 12	(449,999)	344,600,000
Increase (decrease) in deferred credits	15	-	-
Net cash provided by financing activities		(449,999)	344,600,000
NET INCREASE IN CASH AND CASH EQUIVALENTS		(3,629,969)	343,361,498
CASH, BEGINNING OF YEAR	2.7, 4	276,976,598	169,605,856
CASH AND CASH EQUIVALENTS, 30 September 2007	2.7, 4	P273,346,629	P512,967,355

The notes on pages 8- 34 are an integral part of these financial statements.

EURO-MED LABORATORIES PHIL., INC.

NOTES TO FINANCIAL STATEMENTS

1. Corporate information

Euro-Med Laboratories Phil., Inc. (Euro-Med/the Company) began its commercial production in 1991 after it has been registered with the Bureau of Food and Drugs (BFAD) to manufacture pharmaceutical products of large and small volume parenterals and other solutions such as ophthalmic, inhalation, irrigation and dialysis. The Company is currently the largest manufacturer of high quality intravenous fluids in the Philippines.

Euro-Med is the Parent Company of its only subsidiary, 102 E. De Los Santos Realty Co., Inc. (102 EDSA/the Subsidiary), a 100% owned firm acquired in May 2000. The Subsidiary is involved in leasing out investment property.

Euro-Med is a publicly listed corporation incorporated and domiciled in the Philippines. The Company was registered with the Securities and Exchange Commission (SEC) on 29 January 1988. Its registered office address is at PPL Building, United Nations Avenue cor. San Marcelino St., Manila.

Euro-Med had its first listing on the Philippine Stock Exchange (PSE) on 2 July 1998.

2. Summary of significant accounting policies

The principal accounting policies applied in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation and statement of compliance

The financial statements of the Company have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in Philippine Financial Reporting Standards (PFRS's). The term PFRS, in general, includes all applicable PFRS, Philippine Accounting Standards (PAS) and SIC/IFRIC interpretations, which have been approved by the Accounting Standards Council (now called Financial Reporting Standards Council or FRSC).

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Company's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

The financial statements have been prepared in Philippine peso, the Company's functional and presentation currency. All values are rounded to the nearest peso except when otherwise indicated.

2.2 Adoption of new accounting standards

The Company adopted the following revised and new accounting standards effective for annual periods beginning 1 January 2005:

- PAS 1, Presentation of Financial Statements
- PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors
- PAS 10, Events after the Balance Sheet Date
- PAS 16, Property, Plant and Equipment
- PAS 17, Leases
- PAS 21, The Effects of Changes in Foreign Exchange Rates
- PAS 24, Related Party Disclosure
- PAS 27, Consolidated and Separate Financial Statements
- PAS 32, Financial Instruments: Disclosure and Presentation
- PAS 33, Earnings per Share
- PAS 36, Impairment of Assets
- PAS 38, Intangible Assets
- PAS 39, Financial Instruments: Recognition and Measurement

The adoption of the above standards will not result in substantial changes to the Company's accounting policies. The financial statements for the year 2004 under the old generally accepted accounting principles (GAAP) was restated to conform with the first Philippine Financial Reporting Standards (PFRS) financial statements in years 2005 and in 2006. No major adjustments were made except for the reclassification of 'Other investment of P344,000' to 'Available for sale securities and an adjustment of P1,494,115 in retained earnings due to change in accounting policy of 'Investment in subsidiary' which the Company accounted under cost method of accounting from equity method (PAS 27).

2.3 Standards relevant to the Company's operations

The Company will adopt the standards and amendments set out below as they become effective:

- PFRS 7, *Financial Instruments: Disclosures (effective 1 January 2007)* introduces new disclosures relating to financial instruments. The revised disclosures on financial instruments provided by this standard will be included in the Company's financial statements when the standard is adopted in 2007.
- PAS 1 (Amendment), *Presentation of Financial Statements – Capital Disclosure (effective 1 January 2007)* requires entities to disclose information that enables readers to evaluate the entity's objectives, policies and processes for managing capital. The disclosures are based on information provided internally to key management personnel, and will include: (a) the objectives, procedures and policies used to manage capital, (b) a description of what the entity manages as capital, the nature of any externally imposed capital requirements, if any, and how it meets objectives for managing

capital, (c) quantitative information about what the entity manages as capital and any changes from the prior period, and (d) whether the entity complied with externally imposed capital requirements and the consequences of any non-compliance, if applicable. The Company will consider what information is currently used internally and how this is to be incorporated into the disclosures in the year of adoption.

The Company expects that adoption of the said standard will have no impact on the Company's financial statements in the period of initial application.

2.4 Standards, amendments and interpretations effective 2006 and onwards but not relevant

Certain new standards, amendments and interpretations that are mandatory for accounting periods beginning on or after 1 January 2006, unless otherwise stated, are not relevant to the Company's operations:

Philippine Accounting Standards

- PAS 39 (Amendment), Cash Flow Hedge Accounting of
- Forecast of Intragroup Transactions
- PAS 39 (Amendment), The Fair Value Option
- PAS 39 (Amendment), Financial Guarantee Contracts

Philippine Financial Reporting Standards

- PFRS 4 (Amendment), Financial Guarantee Contracts
- PFRS 6, Exploration for and Evaluation of Mineral Resources

Philippine Interpretation

- IFRIC 4, Determining whether an Arrangement Contains a Lease
- IFRIC 5, Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Fund
- IFRIC 6, Liabilities arising from Participating in a Specific Market – Waste Electrical and
- Electronic Equipment (*effective from 1 December 2005*)
- IFRIC 7, Applying the Restatement Approach under PAS 29 Financial Reporting in
- Hyperinflationary Economies (*effective 1 March 2006*)
- IFRIC 8, Scope of PFRS 2 (*effective 1 May 2006*)
- IFRIC 9, Reassessment of Embedded Derivatives (*effective 1 June 2006*)
- IFRIC 10, Interim Financial Reporting and Impairment (*effective on or after 1 November 2006*)

2.5 Financial assets

Financial instruments are recognized initially at fair value of the consideration given. The fair values of the consideration given or received are determined by reference to the transaction price or other market prices. If such market prices are not reliably determinable, the fair value of the consideration is estimated as the sum of all future cash payments or receipts, discounted using the prevailing

market rates of interest for similar instruments with similar maturities. The initial measurement of financial instruments includes transaction costs.

All regular way purchases and sales of financial assets are recognized on the trade date (i.e. the date that the Company commits to purchase the asset). Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the marketplace. The subsequent measurement bases for financial instruments depend on its classification.

Changes in the fair value of investments classified as available-for-sale (AFS) securities are recognized in equity, except for foreign exchange fluctuations on available-for-sale debt securities and the related effective interest which are taken directly to the statements of income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statements of income.

Due to the short term nature of the transactions, the fair values of financial assets (cash and cash equivalents, trade and other receivables) approximates the carrying amounts as at balance sheet date.

2.6 Derecognition of financial assets

Financial instruments are recognized in the financial statements when the Company becomes a party to the contractual provisions of the instrument. A financial asset (or where applicable, a part of a group of financial assets) is derecognized when:

- The right to receive cash flows from the assets have expired;
- The Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third-party under a "pass-through" arrangement; or
- The Company has transferred substantially all the risks and rewards of the asset, or has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

2.7 Cash and cash equivalents

Cash includes cash on hand, in banks and revolving fund. This account is recorded at face value.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

2.8 Trade and other receivables

2.8a Trade

Trade receivables are recognized and carried at original invoice amount less an estimate made for doubtful accounts based on the review of all outstanding amounts as of balance sheet date. An estimate for probable losses is made when collection of the full amount is no longer probable.

The Company has provided an allowance for doubtful accounts to take care of the estimated possible losses, which may be incurred in the non-collection of receivables.

2.8b Others

This account includes the current portions of advances and deposits, housing loan assistance, and car loans, which are expected to be realized in the twelve (12) month period from balance sheet date. The Company has no receivables from subsidiaries and receivables from related parties during the period.

2.9 Inventories

The Company's raw materials as well as finished goods inventory are valued at the lower of cost, or net realizable value. Net realizable value is the selling price in the ordinary course of business less marketing and distribution costs.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:

2.9a Finished goods

Determined primarily on the basis of using the first-in, first out (FIFO) method; cost includes direct materials and labor and a proportion of manufacturing overhead costs based on actual goods processed and produced.

2.9b Raw materials

Cost is determined using the first-in, first-out basis.

2.10 Investment in subsidiary

Upon the adoption of PAS 27, "Consolidated and Separate Financial Statements" in the beginning of the year 2005, the Company changed its accounting method to account for its 100% investment in its subsidiary, 102 E. Delos Santos Realty Co., Inc., from equity method to cost method. A subsidiary is an entity that is controlled by another entity known as the parent company.

Subsidiary is an entity over which the Company has the power to govern the financial and operating policies generally accompanying a shareholding of more than half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Company controls another entity.

2.11 Property, plant and equipment

Property, plant and equipment, except land, are carried at cost less accumulated depreciation and amortization and accumulated provision for any impairment in value.

The initial cost of property and equipment comprises its purchase price and other costs directly attributable in bringing the assets to its working condition and location for its intended use. Expenditures incurred after the property have been put into operation, such as repairs and maintenance, are normally charged to income in the year the costs are incurred. In situations when it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property beyond its originally assessed standard of performance and the cost of such item can be measured reliably, the expenditures are capitalized as an additional cost of the said property and equipment.

Land is stated at cost less impairment in value; if any. The carrying values of the property, plant and equipment are reviewed for impairment when events or changes in the circumstances indicate that the carrying values may not be recoverable.

Depreciation is computed using the straight-line method over the following estimated useful lives of the assets:

Land improvements	20 years
Building and improvements	30 years
Machinery and equipment	20 years
Laboratory equipment	10 years
Transportation equipment	10 years
Office furniture, equipment and improvements	10 years

The useful life and depreciation method are reviewed periodically to ensure that the period and method of depreciation are consistent with the expected pattern of economic benefits from items of property.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

2.12 Impairment

The carrying values of property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount. An asset's recoverable amount is calculated as the higher of the asset's value in use or its net selling price. An impairment is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss, if any, is charged to the operations in the period in which it arises.

2.13 Prepaid marketing development expense

This refers to the amount stipulated in the Company's sales contracts, which are amortized over the term of the relevant sales contracts.

2.14 Available-for-sales securities (AFS)

AFS investments are those non-derivative financial assets that are designated as AFS or are not classified in any of the other three categories, financial assets held at Fair Value Through Profit or Loss (FVPL), Held-to-maturity (HTM), loans and receivables. AFS investments include financial assets not quoted in an active market and are classified as AFS when purchased and held indefinitely, but which the Company anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading.

AFS investments are carried at fair value. The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the balance sheet date. For investments where there is no active market, the fair value is determined using valuation techniques. Such techniques include using arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

After initial recognition, changes in the fair value of AFS investments are recognized in equity, except for the foreign exchange fluctuations on AFS debt securities and the related effective interest which are taken directly to the statements of income. These changes in fair values are recognized in equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in the statements of income.

AFS investments including investments in unquoted equity securities where the Company's ownership interest is less than 20% or where control is likely to be temporary are initially recorded at cost, being the fair value of the investment at the time of acquisition inclusive of direct acquisition charges associated with the investment. In subsequent measurement, the Company carries such investments at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

2.15 Patents/Rights

Patents and rights are carried at acquisition cost and being amortized over a period of twenty (20) years.

Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefit embodied in the specific asset to which it relates. All other expenditure is expensed when incurred.

2.16 Financial liabilities

All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Gains and losses are recognized in the statements of income when liabilities are derecognized as well as through amortization process.

Financial liabilities are derecognized when the obligation is extinguished. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statements of income.

The carrying amounts of trade accounts payable, acceptances payable and notes payable approximates their fair values because their short term nature or the interest rates that they carry approximates the interest rate for comparable instruments in the market.

2.17 Trade accounts payable

This account represents the outstanding non-interest bearing payables to suppliers of raw materials and other services. There are no existing advances from directors, officers and employees.

2.18 Borrowing costs

The Company accounts its borrowing costs as expenses in the period in which they are incurred, except to the extent that they are capitalized. Accordingly, interest on loans used to finance capital expenditures is capitalized as part of the cost of the property during the installation/construction period. Under PAS 23, capitalization of borrowing cost as part of the cost of an asset commences when:

- expenditures of the asset are being incurred;
- borrowing costs are being incurred ; and
- activities to prepare the asset for its intended use or sale are in progress.

Capitalization of borrowing costs ceases when substantially all the activities necessary to prepare the asset for its intended use or sale are complete.

2.19 Research and development costs

Expenditure on research for activities undertaken with the prospect of gaining new scientific or technical knowledge and understanding, is recognized in profit or loss as an expense when incurred.

Expenditure on development activities, whereby research findings are applied to a plan or design for the production of new or substantially improved product and processes, is capitalized if the product or process is technically and commercially feasible.

2.20 Foreign currency transaction and translations

Foreign currency transactions are recorded in Philippine peso based on the exchange rate prevailing at the time of transaction. Outstanding foreign currency denominated assets and liabilities are restated based on the exchange rate prevailing at the balance sheet date. Gains or losses arising from subsequent settlements or restatements of foreign currency denominated assets and liabilities at exchange rates different from those at which they were recorded are credited or charged to income.

The Company's financial statements are measured using the currency of the primary economic environment in which it operates. The financial statements are presented in Philippine pesos.

2.21 Revenue and expense recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the company and the revenue can be reliably measured. The following specific recognition criteria are used before revenue is recognized:

Sale of goods is recognized when the title to inventories passes to the buyer.

Rental income is recognized in the income statement when earned in accordance with the term of the lease agreement and on a straight-line basis over the term of the lease.

Dividend income is recognized when the shareholders' right to receive payment is established.

Interest income from bank deposit is recognized when it is determined that such income will accrue to the Company taking into account the effective yield on the asset and is presented net of applicable tax withheld by the banks.

Cost and expenses are charged to operations when incurred.

2.22 Income taxes

The Company adopted the Philippine Accounting Standards (PAS)/International Accounting Standards (IAS) No. 12, "Income Taxes" which prescribes the accounting treatment and deferment of income taxes. The standard requires the use of a balance sheet liability method in accounting for deferred tax liability and, subject to certain conditions, asset for all temporary differences with certain exceptions. The standard provides for the recognition of deferred tax asset when it is possible that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset valuations.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

2.23 Basic earnings per share

Basic earnings per share is computed by dividing net income by the weighted average number of common shares issued and outstanding, adjusted for any stock dividends declared.

2.24 Business segment information

The Company is primarily engaged in manufacturing pharmaceutical products whether for domestic and export sales (see Note 20.2) that constitute the Company's reportable segments, which is consistent with how the Company's management internally disaggregates financial information for the purpose of making internal operating decisions and evaluating performance.

The Company's assets are utilized for manufacturing pharmaceutical products whether for domestic or export sales. Management considers that it is impractical to allocate such assets and related liabilities to the business segments. Accordingly, segment assets, segment liabilities and other segment information on cash flows and capital expenditures are not separately allocated to the business segments.

2.25 Financial Risk Management

2.25a Derivatives

Derivative financial instruments are designated as "hedging" or "non-hedging" instruments. The transactions that can meet the conditions for hedge accounting, according to the Company's policy for risk management, are classified as hedging transactions, the others, although set up for the purpose of managing risk (since the policy does not permit speculative transactions) have been designated as trading. The Company records derivative financial instruments at cost. The gains and losses on

derivative financial instruments are included in the income statement on maturity to match the underlying hedged transactions where relevant.

The Company documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Company also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

2.25b Financial risk factors

The Company's activities expose it to a variety of financial risk; market risk (including foreign exchange risk and price risk), credit risk, liquidity risk, price risk and interest-rate risk. The Company is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar. Foreign exchange risks arises from future commercial transactions, recognized assets and liabilities and net investments in foreign operation. The Company's overall risk management program focus on the unpredictability of financial markets and seek to minimize potential adverse effects on the company's financial performance using derivative financial instruments to hedge certain risk exposures.

2.25c Foreign exchange risk

The Company has exposures in foreign currencies, primarily in US dollars. Foreign exchange risk arises from the difference in exchange rates between assets, liabilities and equity, which are denominated in foreign currency. Management manages this risk by having peso denominated loans only and maintaining US\$ accounts where our export proceeds are maintained from which payments for our imports are made.

2.25d Credit risk

To manage credit risk, the Company trades only with recognized and credit-worthy customers. It is the Company's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Each customer, whether corporate or otherwise, has an approved maximum credit limit. These limits are reviewed regularly by the Treasury Department. The Company has no significant concentrations of credit risk.

2.25e Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities as well as securing credit lines from other banks. Liquidity requirements and positions are monitored daily and monthly reports are reviewed by the management. Sufficient credit lines with various local banks are obtained and regularly renewed.

2.25f Price risk

The Company is exposed to price risk because of the nature of its business. This is managed by maintaining good business relations with our customers, producing a wide-range of products and providing prompt, courteous and efficient delivery service. Likewise, for valued customers, prices are contracted for a long-term period.

2.25g Interest rate risk

The Company's exposure to changes in interest rates relates primarily to its short-term borrowings. Management manages its exposures in interest rate risk by closely monitoring the same with various banks and other financial instruments and maximizing borrowing period based on market volatility of interest rates.

2.26 Related party transactions

Parties are considered to be related if one of the parties has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities.

2.27 Functional and presentation currency

Items included in the financial statements are measured using the currency that best reflects the economic substance of the underlying events and circumstances relevant to the Company ("the functional currency"). The financial statements are presented in Philippine Peso, which is the functional and presentation currency, and all values are rounded to the nearest peso except when otherwise indicated.

2.28 Interim Financial Data

The interim financial data as of September 30, 2007 and 2006, are unaudited; however, the interim data include all adjustments consisting only of normal recurring adjustments necessary for a fair statements of the results for the interim period.

3. Significant accounting judgments and estimates

PAS 1, Presentation of financial statements, requires disclosures about key sources of estimation uncertainty and judgments that management has made in the process of applying accounting policies. The following presents a summary of these significant estimates and judgments:

Judgments

In the process of applying the Company's accounting policies, management has made the following judgments, apart from those involving estimations that have the most significant effect on the amounts recognized in the financial statements:

Revenue recognition

The Company's revenue recognition policies require use of estimates and assumptions that may affect the reported amounts of revenue and receivables.

Estimates

The key assumptions concerning the future and other sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Estimated allowance for impairment losses on receivables

The Company evaluates the possibility of losses that may arise out of the non-collection of receivables based on a certain percentage of the outstanding balance of receivable and on an evaluation of the current status of the account.

The amount and timing of recorded expenses for any period would differ if the Company made different judgments or utilized different estimates. An increase in the allowance for impairment losses on receivables would increase recorded operating expenses and decrease current assets.

Estimated useful lives of property and equipment

The Company reviews annually the estimated useful lives of property and equipment based on the period over which the assets are expected to be available for use and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned.

Asset impairment

The Company assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the company considers important which could trigger an impairment review include the following:

- significant under performance relative to the expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Company is required to make estimates and assumptions that can materially affect the financial statements.

No indications of impairment were noted on the property, plant and equipment as of 31 December 2006 and 2005.

4. Cash and cash equivalents

The account consists of:

	Sept. 30, 2007	2006
Cash on hand and in banks	P 271,804,951	P 275,454,920
Revolving fund	1,541,678	1,521,678
	P 273,346,629	P 276,976,598

5. Trade and other receivables

The account consists of:

	Sept. 30, 2007	2006
Trade	781,569,826	682,997,841
Less: Allowance for doubtful accounts	20,799,364	20,799,364
Trade, net	760,770,462	662,198,477
Other receivables		
Advances and deposits	17,604,646	14,949,510
Housing loan assistance	1,039,628	3,648,455
Car loan	2,852,998	8,610,402
	21,497,272	27,208,367
	P 782,267,734	P 689,406,844

Advances and deposits pertain to advances to suppliers for company expenses, which are subject to liquidation within the next twelve (12) month period from balance sheet date.

Housing and car loans refer to loans granted to employees which are realizable within twelve (12) month period.

6. Inventories

The account consists of:

	Sept. 30, 2007	2006
Raw materials	P 169,494,962	P 178,456,321
Finished goods	345,344,974	287,868,480
	P 514,839,936	P 466,324,801

There are no transactions or events which occurred during the year involving the following:

- Declines subsequent to balance sheet date in market prices of inventory not protected by firm sales contract.
- Changes in pricing methods and the effects thereof;
- Unusual purchase commitments and accrued net losses, if any, on such commitments. (Losses which are expected to arise from firm and noncancellable commitments for the future purchase of inventory items should, if material, be recognized in the accounts and separately disclosed in the income statements);
- The amount of any substantial and unusual write downs.

7. Other current assets

The account consists of:

	September 30, 2006	2006
Prepaid marketing development	P 29,516,118	P 24,335,470
Creditable withholding tax and VAT	15,900,469	9,162,076
Bidders and performance bond	12,716,747	10,687,663
Advances to officers and employees	8,088,852	1,267,812
Input tax	2,742,291	2,592,660
	P 68,964,477	P 48,045,681

Prepaid marketing development expenses refers to those expenses, which are to be amortized within the next twelve (12) month period.

Advances to officers and employees refers to advances for company expenses, which are subject to liquidation by concerned officers and employees within the next twelve (12) month period.

8. Investment in subsidiary

The movement of the Company's investment in subsidiary is presented below:

	September 30, 2007	2006
Balance, January 1	P 82,356,940	P 82,856,940
Cumulative effect due to change in accounting policy from equity to cost method under PAS 27		
Adjustment on investment	-	(500,000)
	P 82,356,940	P 82,356,940

9. Property, plant and equipment

The rollforward analysis of this account follows:

30 September 2007					
	Land and Land improvements	Building and improvements	Machinery and equipment	Transportation equipment	Total
AT COST					
At 1 January 2007	39,693,201	370,134,786	4,361,039,022	11,501,750	4,782,368,759
Additions	-	3,071,005	59,224,246	1,250,000	63,545,251
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
AT 30 September 2007	39,693,201	373,205,791	4,420,263,267	12,751,750	4,845,914,009
ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS					
At 1 January 2007	10,454,255	111,704,458	880,216,844	9,342,755	1,011,718,312
Depreciation, amortization, and impairment loss	562,241	9,907,743	113,922,291	246,599	124,638,873
Retirements/disposals	-	-	-	-	-
Reclassification and others	-	-	-	-	-
AT 30 September 2007	11,016,496	111,704,458	994,139,135	9,589,354	1,136,357,185
NET BOOK VALUE AS OF 30 september 2007	28,676,705	261,501,333	3,426,124,133	3,162,396	3,709,556,824

31 December 2006

	Land and Land Improvements	Building and Improvements	Machinery and equipment	Transportation equipment	Total
COST					
At 1 January 2006	39,693,201	386,907,914	4,153,779,240	10,903,949	4,591,284,304
Additions	-	226,871	190,259,782	873,311	191,359,964
Retirements/disposals	-	-	-	(275,510)	(275,510)
Reclassification and others	-	-	-	-	-
At 31 December 2006	39,693,201	387,134,785	4,344,039,022	10,903,949	4,782,368,758
ACCUMULATED DEPRECIATION AMORTIZATION AND IMPAIRMENT LOSS					
At 1 January 2006	9,704,601	98,501,697	730,162,398	9,276,112	847,644,808
Depreciation, amortization, and impairment loss	749,654	13,202,762	150,054,446	342,153	164,349,015
Retirements/disposals	-	-	-	(275,510)	(275,510)
Reclassification and others	-	-	-	-	-
At 31 December 2006	10,454,255	111,704,459	880,216,844	9,342,755	1,011,718,313
NET BOOK VALUE AS OF 31 DECEMBER 2006	29,238,946	275,430,326	3,463,822,178	1,561,194	3,770,650,445

Depreciation expense for the nine months ended September 30, 2007 and 2006 amounted to P124,655,026 and P123,283,422 respectively broken down as follows:

	Sept. 30, 2007	Sept. 30, 2006
Charged to:		
Factory overhead	P 119,912,754	P 118,588,256
Operating expenses	4,742,272	4,695,166
	P 124,655,026	P 123,283,422

Machinery in progress is included in the machinery and equipment amounting to P 1,379,322,952 in 2007 and P1,307,218,948 in 2006.

Certain real estate and machines were used as collateral for long-term borrowings (See note 12).

10. Other non-current assets

The account consists of:

	Sept. 30, 2007	2006
Deferred income tax	P 6,770,945	P 6,770,945
Available-for-sale securities	344,000	344,000
Patents/Rights	1,014,919	1,098,123
Prepaid marketing development expense	88,548,354	102,771,133
Advances and deposits, housing and car loans (realizable beyond the next 12 month period)	28,797,955	12,121,246
	P 125,476,173	P 123,105,447

Deferred income tax refers to the deferred income tax on allowance for bad debts.

Available-for-sale securities are the Company's investment in PLDT shares and Casino Español de Manila. As of 30 September 2007 the fair value of the said investments equal its year-end book value.

The account consist of:

	Sept. 30, 2006	2006
Philippine Long Distance Tel. Corp.(PLDT)	P 144,000	P 144,000
Casino Español de Manila	200,000	200,000
	P 344,000	P 344,000

The PLDT shares represents stocks held by the Company under the investee's Subscribers Investment Plan. This is in connection with the various telephone lines acquired by the Company. Investment in Casino Español de Manila represents corporate proprietary shares.

Patents and rights are carried at acquisition cost and being amortized over a period of twenty (20) years. The company has registered tradenames and trademarks with the Department of Trade – Bureau of Patents, Trademarks and Technology (BPTTT).

Prepaid marketing development expenses, refers to those expenses which are to be amortized for more than twelve months.

The account *advances and deposits* pertain to advances to suppliers for company expenses which are subject to liquidation beyond the next twelve (12) month period from balance sheet date.

The account *advances to officers and employees, housing and car loans* include loans granted that are deductible from salaries of concerned employees which are realizable beyond the next twelve (12) month period.

11. Trade accounts payable

The account relates to the outstanding payables to the Company's suppliers of raw materials and other services. As of balance sheet date, the balances amounted to P90,727,155 and P90,066,396 for 2007 and 2006, respectively.

12. Notes payable

The account consists of:

	September 30, 2007	2006
Short-term loans	P 1,109,216,668	P 1,109,666,667
Long-term loans	988,866,665	988,866,665
	P 2,098,083,333	P 2,098,533,332

The short-term notes payable represents the Company's net availments from the Omnibus Credit lines granted by various local banks in the aggregate principal amount of P1,109,216,668 and P1,109,666,667 in 2007 and 2006 respectively. The proceeds of the loans were used for working capital and capital expenditures. Credit lines are available in peso or dollar availments of up to 360 days term. Interest is payable / renewable monthly or every 60 to 90 days in arrears at prevailing bank loan rate. Also included in this account is the current maturing portion of long-term debts amounting to P260,000,000 in 2007 and P346,666,667 in 2006.

The long-term notes pertains to the loans obtained by the Company from local banks payable in three (3) to seven (7) years on principal amortization and interest rates based on T-bills plus spread. The loan proceeds were used to refinance short-term notes payable and for capital expenditures. The loans are collateralized by a mortgage on land with an area of 36,314 sq. meters in Cavite; building and improvements on land; and machinery consisting of three production lines. As at balance sheet date, total long-term debts are presented net of current maturing portion as follows:

	September 30, 2007	2006
Long-term loans	P 1,248,866,665	P 1,335,533,332
Current portion of long-term loans	260,000,000	346,666,667
	P 988,866,665	P 988,866,665

The current portion of the long-term debt pertains to the amount of the liability due within one year following the close of the balance sheet date.

The Company has Omnibus Credit lines in the aggregate amount of about P2.0 billion on a clean basis from various commercial banks. These credit lines provide for cash borrowings (Peso or Dollars), Export/Domestic Bills Purchase Lines, Bankers Acceptances and Letters of Credit (with no marginal deposit at opening). Availments are for a period of 180 to 360 days, with interest payable/reviewable monthly or every 60 to 90 days in arrears at prevailing bank loan rates.

The details of Property, Plant and Equipment pledged as security to liabilities based on fair market value as at balance sheet date follows:

Land	P 137,993,000
Building and improvements	214,777,000
Machinery and equipment	1,989,739,900
	P 2,342,509,900

The titles of real estate properties were not restricted.

13. Acceptances payable

This account represents letters of credit obtained from various local banks for the importation of various raw materials. This is part of the availments from Omnibus Credit lines of various commercial banks. Credit lines provide for:

- No margin deposit at opening of letters of credit.
- Foreign exchange conversion at prevailing bank rate.
- Usance and Trust Receipts available up to 180 days with interest payable / reviewable monthly or every 30 to 90 days in arrears at prevailing bank loan rate.

14. Other current liabilities

	Sept. 30, 2007	2006
Accrued expenses	P 1,418,936	P 22,815,890
Agency payable	17,982,463	9,720,329
	P 19,401,399	P 32,536,219

Accrued expenses represent accrual of purchases of finished goods inventories and accrued interest on trust receipts and loans payable.

Agency payable account consists of:

	Sept. 30, 2007	2006
SSS/Pag-ibig/Philhealth premium and loans	P 1,770,569	P 1,626,980
BIR withholding taxes and VAT payable	16,211,894	8,093,349
	P 17,982,463	P 9,720,329

15. Deferred credits

This represents advance rental and refundable deposits amounting to P 5,400,000 in 2007 and P 5,400,000 in 2006.

16. Contingent Liabilities

16.a) The Company's unused letters of credit as of 30 September 2007 amounted to P91,541,938 and P117,971,751 in 2006.

16.b) The company have filed tax amnesty return on October 02, 2007, pursuant to Republic Act. No.9480 (RA#9480) which became effective on 16 June 2007. The benefits and privileges on this are:

1. Immunity from payment of taxes as well as additions thereto and appurtenant civil, criminal or administrative penalties under the National Internal Revenue Code of 1997, arising from the failure to pay any and all internal revenue taxes for taxable year 2005 and prior years.
2. The company's Tax Amnesty Return shall not be admissible as evidence in all proceedings that pertain to taxable year 2005 and prior years, in so far as such proceedings relate to internal revenue taxes. The same shall not be examined, inquired or looked into by any person or government office.
3. The books of accounts and other records of the company for the years covered by the tax amnesty availed of shall not be examined by the BIR.

17. Dividend declaration

In a meeting held on 21 December 2006, the Board of Directors approved the declaration of 10% stock dividend from the unrestricted retained earnings of the Corporation as of 31 December 2006 and in furtherance thereof, approved the additional issuance of two hundred sixty six million and two hundred thousand (266,200,000) shares from its authorized and unissued capital stock.

The stock dividend of 10% is equivalent to two hundred sixty six million and two hundred thousand (266,200,000) shares at par value based on the issued and outstanding capital stock of the Corporation of two billion six hundred sixty six million (2,662,000,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- a) The stockholders during the annual stockholders' meeting held on 20 June 2007.
- b) The Securities and Exchange Commission (SEC) on 24 July 2007.
- c) The Philippine Stock Exchange, Inc., (PSE) on 25 July 2007 and was listed on the same date.

In a meeting held on 21 December 2005, the Board of Directors approved the declaration of 10% stock dividend from the unrestricted retained earnings of the Corporation as of 31 December 2005 and in furtherance thereof, approved the additional issuance of two hundred forty two million (242,000,000) shares from its authorized and unissued capital stock.

The stock dividend declared in 2005 is equivalent to two hundred forty two million (242,000,000) shares at par value based on the issued and outstanding capital stock of the Corporation of two billion four hundred twenty million (2,420,000,000) shares with a par value of One Peso (P1.00).

The above stated board resolutions were approved by:

- d) The stockholders during the annual stockholders' meeting held on 19 May 2006.
- e) The Securities and Exchange Commission (SEC) on 5 June 2006.
- f) The Philippine Stock Exchange, Inc., (PSE) on 5 June 2006 and was listed on the same date.

18. Share capital

The account at 30 September 2007 consists of:

Authorized		
No. of shares		3,800,000,000
Par value		P 1.00
		P 3,800,000,000
	2007	2006
Issued	2,928,200,000	2,662,000,000
Stock dividend distributable (See note 17)	-	266,200,000
	P 2,928,200,000	P 2,928,200,000

19. Retained earnings

This account represents retained earnings amounting to P227,501,480 in 2007 and P71,883,655 in 2006. There are no restrictions, statutory or contractual, including those relating to legal reserves and capitalized earnings, which limit for dividend purposes and other appropriations. The amounts are all unappropriated/free. There is no existing stock purchase agreement.

20. Net sales

20.a) The account at 30 Sept. consists of:

	Sept. 30, 2007	Sept. 30, 2006
Sale of goods	P 1,619,764,381	P 1,514,126,478
Rental	12,150,000	10,800,000
	P 1,631,914,381	P 1,524,926,478

20.b.) The total sale of goods is broken down as follows:

	Sept. 30, 2007	Sept. 30, 2006
Export sales		
ASEAN	P 165,691,463	P 154,225,130
Other Asian countries	29,069,575	25,227,438
Africa	47,898,981	41,853,451
Others	52,147,959	45,100,856
	294,807,978	266,406,875
Local sales	1,324,956,403	1,247,719,603
Total	P 1,619,764,381	P 1,514,126,478

21. Miscellaneous Income

Miscellaneous income consists of the following:

	Sept. 30, 2007	Sept. 30, 2006
Gain(loss) on foreign exchange translation	P (6,099,153)	P (4,687,266)
Interest on car/housing loan	341,853	653,055
Others	2,609,170	1,889,207
	P (3,148,130)	P (2,145,004)

22. Cost of goods manufactured and sold

This account consists of the following:

	Sept. 30, 2007	Sept. 30, 2006
Raw materials used	P 440,331,891	P 427,618,476
Direct Labor	30,126,177	22,550,975
Manufacturing overhead	409,834,100	339,920,966
Cost of goods manufactured	880,292,168	790,090,417
Finished goods		
Beginning of year	287,868,480	215,792,775
Purchases	101,854,347	70,387,459
End of period	(345,344,974)	(272,922,776)
	P 924,670,021	P 803,347,875

The breakdown of raw materials used at 30 September is as follows:

	Sept. 30, 2007	Sept. 30, 2006
Raw Materials		
Beginning of year	P 178,456,321	P 145,374,184
Purchases	431,370,533	410,833,816
Raw materials available for use	609,826,854	556,208,000
End of year	(169,494,962)	(128,589,524)
	P 440,331,891	P 427,618,476

23. Selling, general and administrative expenses

This account consists of the following:

	Sept. 30, 2007	Sept. 30, 2006
Delivery Expenses	P 87,886,557	P 85,007,762
Salaries and Commissions	67,462,851	62,183,497
Marketing development and entertainment expenses	63,973,631	53,488,229
Transportation and travelling	23,635,264	33,645,285
Taxes and licenses	17,672,127	22,973,575
Rentals	9,237,787	7,988,226
Office supplies	9,203,174	5,995,293
Professional fees	3,502,827	7,746,101
Depreciation	4,742,273	4,695,166
Postage and telephone	3,706,933	3,501,438
Repairs and maintenance	1,947,591	2,810,445
SSS/Medical/ECC/HDMF	2,556,788	2,085,143
Light and Water	2,057,693	2,020,665
Training and seminars	100,463	1,535,945
Insurance	1,228,327	954,906
Subscription and dues	889,578	1,097,254
Donations/charitable contribution	-	450,000
Amortization	83,205	83,205
Miscellaneous	8,784,936	9,403,104
	P 308,672,005	P 307,665,239

24. Finance charges

This account consists of the following:

	Sept. 30, 2007	Sept. 30, 2006
Short-term loans	P 100,549,209	P 91,282,127
Long-term loans	56,442,187	86,036,974
	P 156,991,396	P 177,319,101

25. Borrowing costs

PAS 23, *Borrowing costs* prescribes the accounting treatment for borrowing costs to generally require the immediate expensing of borrowing costs. However, the standard permits, as allowed alternative treatment, the capitalization of such costs that are directly attributable to the acquisition, construction or production of a qualifying asset (i.e. an asset that takes a substantial period of time to get ready for its intended use or sale) as part of the cost of the appropriate qualifying asset/s. Capitalization of borrowing cost ceases when substantially all the activities necessary to prepare the assets for its intended purpose are completed.

The amounts of interest capitalized/ expensed for each period covered are as follows:

	Sept. 30, 2007	Sept. 30, 2006
Capitalized	P -	P-
Expensed	156,991,396	177,319,101
	P 156,991,396	P 177,319,101
Capitalization rate	0%	0%

26. Research and development cost

Research and development cost consist of the following:

	Sept. 30, 2007	Sept. 30, 2006
Material, laboratory supplies and salaries of R & D personnel	P 16,548,437	P 2,718,052
	P 16,548,437	P 2,718,052

27. Income tax

Estimated income tax for the interim financial statements was computed based on 2005 CTRP at 35%. Final income tax payable for the whole year is being computed by the Company's external auditor at the end of the year.

28. Basic earnings per share

Computation of earnings per share is shown below:

	Sept. 30, 2007	Sept. 30, 2006
Net income	P155,617,825	P153,137,889
Divided by: weighted average number of outstanding shares	2,662,000,000	2,420,000,000
	P0.06	P0.06

Earnings per share is computed based on weighted average number of common shares outstanding during each period adjusted for any stock dividends declared. No stock options, warrants and debenture bonds were offered, exercised nor converted for both periods. Accordingly, no diluted earnings per share is presented in the accompanying statements of income for the periods Sept. 30, 2007 and 2006..

29. Business information

The following table presents revenues, net income, total assets and total liabilities information for the periods ended 30 Sept. 2007 and 2006.

	Sept. 30, 2007	Sept. 30, 2006
Revenues	P 1,631,914,381	P 1,524,926,478
Net income	155,617,825	153,137,890
Total assets	5,556,808,710	5,590,804,426
Total liabilities	2,334,498,002	2,630,618,766

30. Related party transactions

- The Company is leasing its office at PPL Building, United Nations Avenue corner San Marcelino Street, Manila from US Automotive Co., Inc., a majority stockholder of the Company. The lease is for one (1) year period and is being renewed annually subject to mutual agreement of the parties. In renewal, the Management considers the lease rates charged to the other tenants in the building and in the vicinity. The rent for the period January to Sept. 2007 and 2006 amounted to P 1,726,175 and P3,107,115 respectively. The outstanding payable as of Sept. 30, 2007 is P734,732 including electric and water consumption. There are no other ongoing contractual or other commitments as a result of the arrangement.
- The Company is leasing a 10,936 square meter lot located at the corner of Epifanio Delos Santos Avenue and Madison Street, Mandaluyong City from 102 E. Delos Santos Realty Co., Inc., a 100% owned subsidiary. The lease that expired on 30 June 2007 was renewed for a one (1) year period until 30 June 2008. Inasmuch as 102 EDSA Realty Co., Inc. is a wholly owned subsidiary, the Management also considers the market lease rates in the area and the financial requirements of its subsidiary in determining the lease amount. The rent for the period January to Sept. 2007 and 2006 were the same in the amount of P10,350,000. There are no outstanding payables as of 30 Sept. 2007. There are no other ongoing contractual or other commitments as a result of the arrangement.
- The Company purchased labels from Philippine Label Pack Corp., a corporation wherein some major stockholders are family members of one (1) of the Company's directors/executive officers. These transactions are made substantially on the same terms and conditions as transactions with other suppliers of the Company. The purchase price depends on the prices submitted/quoted by various suppliers. Purchases for the period January to Sept. 2007 and 2006 amounted to P8,261,664.2 and P6,266,742 respectively.

Outstanding payables as of 30 Sept. 2007 is P255,156.14. There are no ongoing contractual or other commitments as a result of the arrangement.

- There are no outstanding loan payables between related parties.

31. Schedule of Aging of Accounts Receivable- Trade

Accounts receivable-trade represents sales of Company's products to customers with credit terms of 0-90 days. The company's normal operating cycle is one-(1) year period. Aging of accounts receivable as of Sept. 30, 2007 follows:

0-30 days	P	304,020,071
31-60 days		148,828,764
61-90 days		82,924,370
over 90 days		206,128,330
under litigation		18,868,927
Total	P	<u><u>760,770,462</u></u>

32. Additional disclosure requirements of SRC Rule 68

Under the following disclosure requirements by SRC Rule 68, the Company has neither an existing plan nor a transaction involving the following:

- a) Preferred shares.
- b) Pension and retirement plans.
- c) Profit sharing and other similar plans.
- d) Capital stock optioned, sold or offered for sale to directors, officers and key employees.
- e) Warrants or rights outstanding.
- f) Defaults

33. Other matters

Where necessary, comparative figures have been adjusted to conform to changes in presentation in the current year.